

**PRAIRIE LAKES  
AREA EDUCATION AGENCY 8**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2006**

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**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**OFFICIALS**

<i><b>NAME</b></i>	<i><b>TITLE</b></i>	<i><b>TERM EXPIRES</b></i>
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**Board of Directors**

Dean Saunders	President	2008
Ed O’Leary	Vice President	2006
Dr. Craig Newell	Member	2006
Bruce Bahnson	Member	2006
Floyd Thies	Member	2007
Mike Kohler	Member	2007
Ramon Fisher	Member	2007
Sue Beers	Member	2008
Todd Lundgren	Member	2008

**Agency**

Dr. L. Kay Forsythe	Chief Administrator	2008
Ginger Hoffman	Chief Administrator Assistant and Board Secretary	2007
Michelle R. Dowd	Business Manager and Board Treasurer	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Prairie Lakes Area Education Agency 8  
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 as of and for the year ended June 30, 2006, which collectively comprise the Prairie Lakes Area Education Agency 8's basic financial statements listed in the table of contents. These financial statements are the responsibility of Prairie Lakes Area Education Agency 8's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 at June 30, 2006 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006, on our consideration of Prairie Lakes Area Education Agency 8's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prairie Lakes Area Education Agency 8's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
August 31, 2006

## **PRAIRIE LAKES AREA EDUCATION AGENCY 8**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Prairie Lakes Area Education Agency 8 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

#### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$20,294,857 in fiscal 2005 to \$21,781,021 in fiscal 2006, while General Fund expenditures increased from \$19,169,876 in fiscal 2005 to \$21,589,273 in fiscal 2006. Interfund transfers of \$430,211 between the General Fund, Special Education Instruction Fund and the Debt Service Fund resulted in an overall reduction of the Agency's General Fund from \$4,475,975 for fiscal year 2005 to \$4,237,512 for fiscal 2006, a 5.3 percent decrease.
- The increase in General Fund revenues was attributable to an increase in local and federal grant revenue in fiscal 2006. The increase in expenditures was due to 1) an increase in services provided to the local school districts, and 2) additional expenditures incurred for the construction project of the Pocahontas facility.
- The reason the General Fund balance decreased was due to the interfund transfers between the General Fund, Special Education Instruction Fund, and Debt Service Fund. The Agency had been carrying a negative fund balance in the Special Education Instruction Fund for the past couple of years, thus funds were transferred from the General Fund to the Special Education Fund to clear this negative fund balance. Funds were also transferred from the General Fund to the Debt Service Fund to offset the negative cash balance that was a result of the past several years' debt payments. Future practice will be to offset the Agency's debt payments on an annual basis by transferring funds from the General Fund to the Debt Service and not let them accumulate.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Prairie Lakes Area Education Agency 8 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **USING THIS ANNUAL REPORT (CONTINUED)**

- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

### **Reporting the Agency's Financial Activities**

#### ***Government-wide Financial Statements***

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's cooperative purchasing program is included here.

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **USING THIS ANNUAL REPORT (Continued)**

#### **Reporting the Agency's Financial Activities (Continued)**

##### ***Fund Financial Statements (Continued)***

The Agency has two kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 3) the Capital Project Fund and 4) the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the government-wide statements. The Agency's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Prairie Lakes Area Education Agency 8's net assets at the end of fiscal 2006 totaled approximately \$6.5 million. This compared to approximately \$6.0 million at the end of fiscal 2005. The analysis that follows focuses on the net assets and changes in net assets.

	<b>CONDENSED STATE</b>			
	<b>Governmental Activities</b>		<b>Business Type Activities</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Assets				
Current and other assets	\$ 8,105	\$ 7,183	\$ -	\$ -
Capital assets	5,282	2,999	-	-
<b>Total assets</b>	<b>13,387</b>	<b>10,182</b>	<b>-</b>	<b>-</b>
Liabilities				
Long-term Liabilities	3,449	1,293	-	-
Other liabilities	3,477	2,862	-	-
<b>Total liabilities</b>	<b>6,926</b>	<b>4,155</b>	<b>-</b>	<b>-</b>
Net Assets				
Invested in capital assets, net of related debt	1,912	1,964	-	-
Restricted	710	21	-	-
Unrestricted	3,839	4,042	-	-
<b>Total net assets</b>	<b>\$ 6,461</b>	<b>\$ 6,027</b>	<b>\$ -</b>	<b>\$ -</b>

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**MENT OF NET ASSETS**

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<b>Total</b>	
<b>2006</b>	<b>2005</b>
<b>\$ 8,105</b>	<b>\$ 7,183</b>
<b>5,282</b>	<b>2,999</b>
<b>13,387</b>	<b>10,182</b>
<b>3,449</b>	<b>1,293</b>
<b>3,477</b>	<b>2,862</b>
<b>6,926</b>	<b>4,155</b>
<b>1,912</b>	<b>1,964</b>
<b>710</b>	<b>21</b>
<b>3,839</b>	<b>4,042</b>
<b>\$ 6,461</b>	<b>\$ 6,027</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The Agency's combined net assets increased by 7%, or approximately \$400,000, from fiscal 2005. The increase occurred primarily in governmental activities as a result of the Agency's construction project not being fully completed during the year ended June 30, 2006. The decrease in unrestricted net assets was primarily due to the Agency's reduction of designated funds for subsequent year's expenditures.

The following analysis details the changes in net assets of the Agency's activities:

	CHANGES IN			
	Governmental Activities		Business Type Activities	
	2006	2005	2006	2005
Revenues:				
Program revenues:				
Charges for service	\$ 928	\$ 888	\$ 14	\$ 13
Operating grants and contributions	18,716	15,015	-	-
General revenues:				
Property tax	5,425	4,934	-	-
Unrestricted investment earnings	38	6	-	-
	<u>25,107</u>	<u>20,843</u>	<u>14</u>	<u>13</u>
Program expenses:				
Instruction	598	731	-	-
Student support services	12,459	11,022	-	-
Instructional staff support services	3,903	4,491	-	-
General administration	1,778	1,501	-	-
Business administration	1,522	538	-	-
Plant operations and maintenance	3,470	632	-	-
Central and other support services	818	821	-	-
Long-term debt interest	125	71	-	-
Non-instructional programs	-	-	14	13
<b>Total program expenses</b>	<u>24,673</u>	<u>19,807</u>	<u>14</u>	<u>13</u>
<b>Increase in net assets</b>	<b>434</b>	<b>1,036</b>	<b>-</b>	<b>-</b>
Net assets beginning of year	<u>6,027</u>	<u>4,991</u>	<u>-</u>	<u>-</u>
Net assets end of year	<u>\$ 6,461</u>	<u>\$ 6,027</u>	<u>\$ -</u>	<u>\$ -</u>

Operating grants and contributions from local, state and federal sources account for 74.5% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 72.1% of the total expenses.

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**NET ASSETS**

<b>Total</b>	
<b>2006</b>	<b>2005</b>
<hr/>	
\$ 942	\$ 901
18,716	15,015
-	
5,425	4,934
38	6
<hr/> 25,121	<hr/> 20,856
<hr/>	
598	731
12,459	11,022
3,903	4,491
1,778	1,501
1,522	538
3,470	632
818	821
125	71
14	13
<hr/> 24,687	<hr/> 19,820
<hr/>	
434	1,036
<hr/> \$ 6,027	<hr/> 4,991
<hr/>	
<hr/> \$ 6,461	<hr/> \$ 6,027

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

#### **Governmental Activities**

Revenues for governmental activities were \$25,106,814 and expenses were \$24,673,565. In a difficult budget year, the Agency was still able to avoid the use of some of the carryover balances to pay for the additional services offered to and needed by local school districts.

#### **Business Type Activities**

Revenues of the Agency's business type activities were \$14,336 and expenses were \$14,336. The Agency's business type activity is the Food Cooperative Purchasing program. Revenues for this activity are comprised of rebates from food vendors. Expenses are for the distribution of these rebates back to the districts. No fees are charged for these services.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, Prairie Lakes Area Education Agency 8 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$4,947,274, above last year's ending fund balances of \$4,482,346. The primary reason for the increase in combined fund balances in fiscal 2006 was a result of the Agency's construction project not being fully completed, thus funds of \$341,111 were carried over to fiscal year 2007.

#### **Governmental Fund Highlights**

- The Agency's decreasing General Fund financial position is the product of the interfund transfers between the General Fund, Special Education Instruction Fund, and Debt Service Fund. The Agency had been carrying a negative fund balance in the Special Education Instruction Fund for the past couple of years, thus funds were transferred from the General Fund to the Special Education Fund to clear this negative fund balance. Funds were also transferred from the General Fund to the Debt Service Fund to offset the negative cash balance that was a result of the past several years' debt payments. Future practice will be to offset the Agency's debt payments on an annual basis by transferred funds from the General Fund to the Debt Service Fund and not let them accumulate.
- The General Fund balance decreased from \$4,475,975 for fiscal year 2005 to \$4,237,512 for fiscal 2006 due to the interfund transfers of \$430,211 between the General Fund, Special Education Instruction Fund and the Debt Service Fund.
- The Capital Projects Fund was added this year to account for the construction project of the Agency's new facility located in Pocahontas. Fiscal 2006 ended with a balance of \$341,111 in the Capital Project Fund due to the project being incomplete at June 30, 2006. These funds will be utilized in fiscal 2007 to complete the project.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **INDIVIDUAL FUND ANALYSIS (CONTINUED)**

#### **Proprietary Fund Highlights**

- The Food Cooperative Purchasing program net assets remained constant from June 30, 2006 and June 30, 2005 with a balance of zero. The Agency acts as a liaison in passing these rebate dollars back to the local districts and does not charge a fee for these services.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Agency amended its budget twice to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. The budget was exceeded because of: 1) confusion on whether or not the capital project should be included in the budget since the accounting was handled by Wells Fargo Iowa, NA, and 2) the additional expenditures spent for the building project. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2006, the Agency had invested \$5,281,987, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net increase of approximately \$2,282,747 from last year. This increase was primarily due to the construction of a new facility in Pocahontas during the year.

Prairie Lakes Area Education Agency 8 had depreciation expense of \$236,745 in fiscal 2006 and total accumulated depreciation of \$3,096,861 at June 30, 2006. More detailed information about capital assets is available in Note 3 to the financial statements.

#### **Long-Term Debt**

At June 30, 2006, the Agency had \$3,370,000 in long-term debt outstanding compared to \$1,035,000 at June 30, 2005. At June 30, 2006, the Agency had \$398,571 in compensated absences compared to \$419,145 at June 30, 2005. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an annual decrease in the number of students enrolled in local districts for the past several years. That decrease is expected to continue, and since controlled funding is driven by the number of students enrolled, decrease funding from the state is anticipated for the upcoming fiscal year.
- The Agency has been notified to expect little or no increase in Federal IDEA funding for the immediate future.
- The Agency began construction of its new central facility located in Pocahontas, Iowa in October of 2005. Funding of the \$2,490,000 project was financed by the sale of lease certificates. Repayment of principal and interest began in December of 2005 and will continue until June of 2025 with an average yearly payment of \$183,091.
- The 2003 Legislature reduced the Agency's fiscal year 2003/2004 state aid by \$1,306,673 and also imposed a \$995,807 fund balance reduction. The 2004 and 2005 Legislatures extended the \$1,299,808 and \$1,433,562 reductions to fiscal years 2004/05 and 2005/06, respectively. While a portion of the reduction has been restored for 2006/07 to an amount of \$1,160,503, these actions have impacted the Agency's ability to provide services to schools in 2005/06 and will continue to do so in future years.

### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office of Prairie Lakes Area Education Agency 8, at 1235 5<sup>th</sup> Ave South, Fort Dodge, Iowa 50501.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

## **BASIC FINANCIAL STATEMENTS**

## STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 5,630,180	\$ -	\$ 5,630,180
Receivables:			
Accounts	257,309	-	257,309
Due from other governments	1,569,700	-	1,569,700
Inventories	98,803	-	98,803
Prepaid expenses	549,339	-	549,339
Capital assets (net of accumulated depreciation)	5,281,987	-	5,281,987
<b>Total assets</b>	<b>13,387,318</b>	<b>-</b>	<b>13,387,318</b>
<b>Liabilities</b>			
Accounts payable	930,360	-	930,360
Salaries and benefits payable	1,717,084	-	1,717,084
Deferred revenue:			
Federal	418,575	-	418,575
Other	92,038	-	92,038
Long-term liabilities:			
Portion due or payable within one year:			
Certificates of participation	165,000	-	165,000
Compensated absences	154,199	-	154,199
Portion due or payable after one year:			
Certificates of participation	3,205,000	-	3,205,000
Compensated absences	244,372	-	244,372
<b>Total liabilities</b>	<b>6,926,628</b>	<b>-</b>	<b>6,926,628</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,911,987	-	1,911,987
Restricted for:			
Debt service	368,651	-	368,651
Capital projects	341,111	-	341,111
Unrestricted	3,838,941	-	3,838,941
<b>Total net assets</b>	<b>6,460,690</b>	<b>-</b>	<b>6,460,690</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,387,318</b>	<b>\$ -</b>	<b>\$ 13,387,318</b>

See Notes to Financial Statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2006**

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
			Contributions
<b>Functions/Programs:</b>			
Governmental Activities:			
Instruction	\$ 598,110	\$ 282,550	\$ 305,284
Student support services	12,460,016	-	13,356,075
Instructional staff support services	3,902,753	340,474	2,133,490
General administration	1,778,277	-	-
Business administration	1,521,549	-	-
Plant operations and maintenance	3,470,493	-	2,540,574
Central and other support services	817,715	304,545	168,925
Interest on long-term debt	124,652	-	211,721
Total governmental activities	24,673,565	927,569	18,716,069
Business-type Activities:			
Non-instructional programs:			
Cooperative purchasing	14,336	14,336	-
Total	\$ 24,687,901	\$ 941,905	\$ 18,716,069

**General Revenues:**

Property taxes, levied for general purposes  
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

**Exhibit B**

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (10,276)	\$ -	\$ (10,276)
896,059	-	896,059
(1,428,789)	-	(1,428,789)
(1,778,277)	-	(1,778,277)
(1,521,549)	-	(1,521,549)
(929,919)	-	(929,919)
(344,245)	-	(344,245)
87,069	-	87,069
(5,029,927)	-	(5,029,927)
-	-	-
(5,029,927)	-	(5,029,927)
5,424,797	-	5,424,797
38,379	-	38,379
433,249	-	433,249
6,027,441	-	6,027,441
\$ 6,460,690	\$ -	\$ 6,460,690

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2006**

		Special Revenue		
		Special		
	General	Education Instruction	Capital Projects	
<b>Assets</b>				
Cash and pooled investments	\$ 4,581,256	\$ 2,377	\$ 710,401	
Receivables:				
Accounts	171,104	86,205	-	
Due from other governments	1,569,700	-	-	
Inventories	98,803	-	-	
Prepaid expenses	516,834	-	-	
<b>Total assets</b>	<b>\$ 6,937,697</b>	<b>\$ 88,582</b>	<b>\$ 710,401</b>	
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 560,979	\$ 91	\$ 369,290	
Salaries and benefits payable	1,630,970	86,114	-	
Deferred revenue:				
Federal	416,198	2,377	-	
Iowa	92,038	-	-	
Total liabilities	2,700,185	88,582	369,290	
Fund balances:				
Reserved for:				
Inventories	98,803	-	-	
Media materials	76,464	-	-	
Prepaid expenses	516,834	-	-	
Other purposes	120,415	-	-	
Unreserved:				
Designated for subsequent year's expenditures	691,321	-	-	
Undesignated	2,733,675	-	341,111	
Total fund balances	4,237,512	-	341,111	
<b>Total liabilities and fund balances</b>	<b>\$ 6,937,697</b>	<b>\$ 88,582</b>	<b>\$ 710,401</b>	

See Notes to Financial Statements.

# Exhibit C

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Nonmajor		Total	
\$	336,146	\$	5,630,180
	-		257,309
	-		1,569,700
	-		98,803
	32,505		549,339
\$	368,651	\$	8,105,331

---

\$	-	\$	930,360
	-		1,717,084
	-		418,575
	-		92,038
	-		3,158,057

---

	-		98,803
	-		76,464
	32,505		549,339
	-		120,415
	-		691,321
	336,146		3,410,932
	368,651		4,947,274
\$	368,651	\$	8,105,331

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**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Exhibit D**

**RECONCILIATION OF THE BALANCE SHEET--  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2006**

**Total governmental fund balances (page 14)** \$ 4,947,274

*Amounts reported for governmental activities in the statement of net assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$8,378,848 and the accumulated depreciation is \$3,096,861.

5,281,987

Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(3,768,571)

**Net assets of governmental activities (page 12)**

\$ 6,460,690

See Notes to Financial Statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES -- GOVERNMENTAL FUNDS  
Year Ended June 30, 2006**

	<div> <div>Special Revenue</div> <div>Special Education Instruction</div> <div>Capital Project</div> </div>		
	General		
Revenues:			
Local sources	\$ 6,408,342	\$ 282,550	\$ 2,540,574
State sources	5,783,915	305,284	-
Federal sources	9,574,428	-	-
<b>Total revenues</b>	<b>21,766,685</b>	<b>587,834</b>	<b>2,540,574</b>
Expenditures:			
Current:			
Instruction	12,477	587,834	-
Student support services	12,479,304	-	-
Instructional staff support services	3,901,029	-	-
General administration	1,908,045	-	-
Business administration	1,510,205	-	-
Plant operations and maintenance	904,188	-	-
Central and other support services	859,689	-	-
Facilities acquisition and construction	-	-	2,199,463
Debt service	-	-	-
<b>Total expenditures</b>	<b>21,574,937</b>	<b>587,834</b>	<b>2,199,463</b>
Excess (deficiency) of revenues over (under) expenditures	191,748	-	341,111
Other financing sources (uses):			
Transfers in	-	14,917	-
Transfers out	(430,211)	-	-
<b>Total financing sources (uses)</b>	<b>(430,211)</b>	<b>14,917</b>	<b>-</b>
Net change in fund balances	(238,463)	14,917	341,111
Fund balances, beginning of year	4,475,975	(14,917)	-
Fund balances, end of year	\$ 4,237,512	\$ -	\$ 341,111

See Notes to Financial Statements.

**Exhibit E**

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<b>Nonmajor</b>		<b>Total</b>	
<hr/>		<hr/>	
\$	211,721	\$	9,443,187
	-		6,089,199
	-		9,574,428
<hr/>		<hr/>	
	211,721		25,106,814
<hr/>		<hr/>	
	-		600,311
	-		12,479,304
	-		3,901,029
	-		1,908,045
	-		1,510,205
	-		904,188
	-		859,689
	-		2,199,463
	279,652		279,652
<hr/>		<hr/>	
	279,652		24,641,886
<hr/>		<hr/>	
	(67,931)		464,928
<hr/>		<hr/>	
	415,294		430,211
	-		(430,211)
<hr/>		<hr/>	
	415,294		-
<hr/>		<hr/>	
	347,363		464,928
	21,288		4,482,346
<hr/>		<hr/>	
\$	368,651	\$	4,947,274
<hr/>		<hr/>	

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES --  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006**

**Net change in fund balances - total governmental funds (page 16)** \$ 464,928

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 2,541,722	
Depreciation expense	<u>(236,745)</u>	2,304,977

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. (22,230)

Certificates of participation provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of certificate principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments. (2,335,000)

Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. 20,574

**Change in net assets of governmental activities (page 13)** \$ 433,249

See Notes to Financial Statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Exhibit G**

**STATEMENT OF NET ASSETS - PROPRIETARY FUND TYPE**

**Year Ended June 30, 2006**

**ASSETS**

Cash and cash equivalents

Due from other governments

Inventories

**Total**

**LIABILITIES**

Accounts payable

**NET ASSETS**

Unrestricted

---

**Cooperative  
Purchasing**

---

\$ -

-

-

---

-

-

---

\$ -

---

See notes to financial statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Exhibit H**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
NET ASSETS - PROPRIETARY FUND TYPE  
Year Ended June 30, 2006**

	<u>Cooperative Purchasing</u>
Operating revenues:	
Charges for service	\$ 14,336
Operating expenses:	
Non-instructional programs:	
Supplies and materials	<u>(14,336)</u>
<b>Total expenditures</b>	<u>-</u>
Net change	-
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ -</u></u>

See Notes to Financial Statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Exhibit I**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE**

**Year Ended June 30, 2006**

	<u><b>Cooperative Purchasing</b></u>
Cash Flows from Operating Activities	
Cash received from users	\$ 14,336
Cash paid to suppliers	<u>(14,336)</u>
<b>Net cash provided by operating activities</b>	-
Cash and cash equivalents beginning of year	<u>-</u>
Cash and cash equivalents end of year	<u><u>\$ -</u></u>

See Notes to Financial Statements.



## PRAIRIE LAKES AREA EDUCATION AGENCY 8

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Summary of Significant Accounting Policies

Prairie Lakes Area Education Agency 8 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 48 school districts and private schools in a 14-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

#### A. Reporting Entity:

For financial reporting purposes, Prairie Lakes Area Education Agency 8 has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Prairie Lakes Area Education Agency 8 has no component units that meet the Governmental Accounting Standards Board criteria.

#### B. Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for the program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Capital Projects Fund is used to account for activities involving the construction of the new facility in Pocahontas, Iowa.

The Agency's proprietary fund is the Enterprise, Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities that are performed as a service to staff on a cost-reimbursement basis.

#### C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and other accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus and Basis of Accounting (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund of the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's enterprise fund is charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### D. Assets, Liabilities and Fund Equity:

Cash and Pooled Investments – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust that is valued at amortized cost and non-negotiable certificates of deposit that are stated at cost.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

## NOTES TO FINANCIAL STATEMENTS

---

### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity (continued):

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Vehicles	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Vehicles	5
Furniture and equipment	10
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

## NOTES TO FINANCIAL STATEMENTS

---

### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity (continued):

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

### Note 2. Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$731,513 pursuant to Rules 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk: The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

Credit Risk: the investment in the Iowa Schools Joint Investment Trust is rated AAA by Moody's Investors Service.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance End of Year</b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 117,912	\$ 49,400	\$ 400	\$ 166,912
Construction in process	-	2,012,696	-	2,012,696
Total capital assets not being depreciated	117,912	2,062,096	400	2,179,608
Capital assets being depreciated:				
Buildings and improvements	3,121,666	32,987	47,925	3,106,728
Furniture and equipment	198,297	335,855	-	534,152
Vehicles	104,136	32,812	23,950	112,998
Library books and films	2,372,981	77,972	5,591	2,445,362
Total capital assets being depreciated	5,797,080	479,626	77,466	6,199,240
Less accumulated depreciation for:				
Buildings and improvements	1,140,137	59,958	28,493	1,171,602
Furniture and equipment	165,761	39,754	-	205,515
Vehicles	68,267	13,630	22,950	58,947
Library books and films	1,541,587	123,403	4,193	1,660,797
	2,915,752	236,745	55,636	3,096,861
Total capital assets being depreciated, net	2,881,328	242,881	21,830	3,102,379
Governmental activities capital assets, net	\$ 2,999,240	\$ 2,304,977	\$ 22,230	\$ 5,281,987

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:

Instruction	\$ -
Student support services	3,935
Instructional staff support services	126,267
General administration	19,057
Business administration	-
Plant operations and maintenance	73,856
Central and other support services	13,630

Total governmental activities  
depreciation expense

\$ 236,745

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance End of Year</b>	<b>Due Within One Year</b>
Certificates of Participation	\$ 1,035,000	\$ 2,490,000	\$ 155,000	\$ 3,370,000	\$ 165,000
Compensated absences	419,145	71,054	91,628	398,571	154,199
	<u>\$ 1,454,145</u>	<u>\$ 2,561,054</u>	<u>\$ 246,628</u>	<u>\$ 3,768,571</u>	<u>\$ 319,199</u>

### Certificates of Participation:

The Agency has sold Certificates of Participation for the acquisition, the remodeling and improvement of, and the installation of furnishings and equipment at the office facility in Storm Lake, Iowa for a total of \$1,500,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 5.85% to 6.75%. The following is a schedule by year of the future minimum payments required:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 75,000	\$ 60,250	\$ 135,250
2008	75,000	55,188	130,188
2009	80,000	50,800	130,800
2010	85,000	46,000	131,000
2011	85,000	40,900	125,900
Thereafter	565,000	109,662	674,662
	<u>\$ 965,000</u>	<u>\$ 362,800</u>	<u>\$ 1,327,800</u>

Payments for the Certificates of Participation for the year ended June 30, 2006, including interest, totaled \$134,976.

## NOTES TO FINANCIAL STATEMENTS

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### Note 4. Changes in Long-term Liabilities (Continued)

#### Certificates of Participation (continued):

The Agency has sold Certificates of Participation for the construction of the office facility in Pocahontas, Iowa, for a total of \$2,490,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 3.5% to 4.35%. The following is a schedule by year of the future minimum payments required:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 90,000	\$ 96,424	\$ 186,424
2008	90,000	93,274	183,274
2009	95,000	90,124	185,124
2010	100,000	86,680	186,680
2011	100,000	83,056	183,056
Thereafter	1,930,000	656,010	2,586,010
	<u>\$ 2,405,000</u>	<u>\$ 1,105,568</u>	<u>\$ 3,510,568</u>

Payments for the Certificates of Participation for the year ended June 30, 2006, including interest total \$151,266.

### Note 5. Operating Leases

The Agency has leased various equipment and facilities within the area to support and house the different divisions of the Agency. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2007 and September 30, 2016. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2006.

<b>Year Ending June 30,</b>	<b>Amount</b>
2007	\$ 134,601
2008	96,495
2009	96,495
2010	96,495
2011	96,495
Thereafter	465,504
	<u>\$ 986,085</u>

The total rental expenditures for the year ended June 30, 2006 for all operating leases, except those with terms of a month or less that were not renewed, was \$195,621.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 6. Lease of Office Space**

The Agency, as lessor, leases 55% of a building as office space to several entities. The lease terms expire in various years through 2012 and range from \$7,200 to \$30,635 per lease annually.

At June 30, 2006 future minimum lease payments receivable under noncancelable operating leases are as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2007	\$ 57,836
2008	38,036
2009	30,635
2010	30,635
2011	30,635
Thereafter	30,635
	<u>\$ 218,412</u>

### **Note 7. Pension and Retirement Benefits**

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$657,724, \$611,571 and \$509,470, respectively, equal to the required contribution for each year.

### **Note 8. Risk Management**

Prairie Lakes Area Education Agency 8 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

## **REQUIRED SUPPLEMENTARY INFORMATION**

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
CHANGES IN BALANCES -- BUDGET AND ACTUAL --**

**ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND**

**Required Supplementary Information**

**Year Ended June 30, 2006**

	<b>Governmental Fund Types Actual</b>	<b>Proprietary Fund Types Actual</b>	<b>Total Actual</b>
Revenues:			
Local sources	\$ 9,443,187	\$ 14,336	\$ 9,457,523
State sources	6,089,199	-	6,089,199
Federal sources:	9,574,428	-	9,574,428
<b>Total revenues</b>	<b>25,106,814</b>	<b>14,336</b>	<b>25,121,150</b>
Expenditures/Expenses:			
Current:			
Instruction	600,311	-	600,311
Student support services	12,479,304	-	12,479,304
Instructional staff support services	3,901,029	-	3,901,029
General administration	1,908,045	-	1,908,045
Business administration	1,510,205	-	1,510,205
Plant operations and maintenance	904,188	-	904,188
Central and other support services	859,689	-	859,689
Noninstitutional programs	-	14,336	14,336
Facilities acquisition and construction	2,199,463	-	2,199,463
Debt service	279,652	-	279,652
<b>Total expenditures/expenses</b>	<b>24,641,886</b>	<b>14,336</b>	<b>24,656,222</b>
<b>Excess of revenues over expenditures/expenses</b>	<b>464,928</b>	<b>-</b>	<b>464,928</b>
Other financing uses, net	-	-	-
<b>Excess of revenues and other financing sources over expenditures/expenses and other financing uses</b>	<b>464,928</b>	<b>-</b>	<b>464,928</b>
Balance, beginning of year	4,482,346	-	4,482,346
Balance, end of year	\$ 4,947,274	\$ -	\$ 4,947,274

Budget		Final to Actual Variance Favorable (Unfavorable)
Original	Final	
\$ 6,133,908	\$ 6,409,632	\$ 3,047,891
7,262,786	6,129,518	(40,319)
7,260,181	9,162,201	412,227
20,656,875	21,701,351	3,419,799

1,253,403	796,837	196,526
10,660,599	11,957,830	(521,474)
4,713,041	4,823,012	921,983
1,766,098	1,762,304	(145,741)
1,742,452	584,348	(925,857)
521,282	572,259	(331,929)
-	935,087	75,398
-	-	(14,336)
-	-	(2,199,463)
-	269,674	(9,978)
20,656,875	21,701,351	(2,954,871)

-	-	464,928
-	-	-

-	-	464,928
2,543,442	4,465,097	17,249
\$ 2,543,442	\$ 4,465,097	\$ 482,177



**PRAIRIE LAKES AREA EDUCATION AGENCY 8**  
**June 30, 2006**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.



## **OTHER SUPPLEMENTARY INFORMATION**

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Schedule 1**

**COMBINING BALANCE SHEETS  
NONMAJOR GOVERNMENTAL FUND  
Year Ended June 30, 2006**

	<b>Assets</b>	<b>Debt Service</b>
Cash and pooled investments		\$ 336,146
Prepaid expense		32,505
<b>Total assets</b>		<u>\$ 368,651</u>
	<b>Liabilities and Fund Balances</b>	
Liabilities:		
<b>Total liabilities</b>		<u>\$ -</u>
Fund balances:		
Reserved for:		
Prepaid expenses		32,505
Unreserved:		
Undesignated		336,146
<b>Total fund balances</b>		<u>368,651</u>
<b>Total liabilities and fund balances</b>		<u>\$ 368,651</u>

See Accompanying Independent Auditor's Report.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Schedule 2**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND  
Year Ended June 30, 2006**

	<b>Debt Service</b>
Revenues:	
Local sources	\$ 211,721
<b>Total revenues</b>	<u>211,721</u>
Expenditures:	
Debt service	<u>279,652</u>
<b>Total expenditures</b>	<u>279,652</u>
<b>(Deficiency) of revenues         (under) expenditures</b>	(67,931)
Other financing sources:	
Transfers in	<u>415,294</u>
Excess of revenues and other financing sources over expenditures and other financing uses	347,363
Fund balances beginning of year	<u>21,288</u>
Fund balances end of year	<u><u>\$ 368,651</u></u>

See accompanying Independent Auditor's Report.



**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES  
BY FUNCTION -- ALL GOVERNMENTAL FUNDS  
For the Last Three Years**

		Modified Accrual Basis Years ended June 30,		
		2006	2005	2004
Revenues:				
Local	\$	9,443,187	\$ 6,136,669	\$ 5,861,125
State		6,089,199	6,570,193	6,120,635
Federal		9,574,428	8,149,680	7,381,258
<b>Total</b>	<b>\$</b>	<b>25,106,814</b>	<b>\$ 20,856,542</b>	<b>\$ 19,363,018</b>
Expenditures:				
Current:				
Instruction	\$	600,311	\$ 733,004	\$ 898,938
Student support services		12,479,304	10,999,916	9,657,645
Instructional staff support services		3,901,029	4,436,652	1,938,988
General administration		1,908,045	1,621,130	985,195
Business administration		1,510,205	537,537	1,179,877
Plant operations and maintenance		904,188	526,417	672,402
Central and other support services		859,689	860,179	3,753,846
Facilities acquisition and construction		2,199,463		
Debt service		279,652	135,641	133,288
<b>Total</b>	<b>\$</b>	<b>24,641,886</b>	<b>\$ 19,850,476</b>	<b>\$ 19,220,179</b>

See accompanying independent auditor's report.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B - 94-142:			
Special Education - Grants to States (IDEA, Part 3):			
Early Childhood Education for the Handicapped	84.027*	50608	\$ 5,325,925
Early Childhood Education for the Handicapped	84.027*	6KB2-08	1,870,105
Special Education - Preschool Grants (IDEA			
Preschool)- Section 619, Age 3-5	84.173**	05619-08	314,166
Special Education - Grants for Infants and Families			
with Disabilities - 94-142 Part C:			
IDEA, Part C, Infants and Toddlers	84.181	C05-08	199,627
Special Education - Grants to States (IDEA, Part 3) -			
Miscellaneous 94-142:			
Diagnostic Evaluation Program	84.027*	4K71-08	1,555
Supplemental Support Services	84.027*	4K72-08	287,217
Learning Supports (Success 4)	84.027*	5K60-08	14,100
Parent Educator Project	84.027*	57408	106,587
Para-Educator Project	84.027*	5K76-08	16,311
Instructional Coaching	84.027*		3,675
SAR-Support	84.027*	16106	1,236
Employee Preparation Study	84.027*	51105	2,500
Every Child Reads	84.027*	G-5K27-8	5,980
Instructional Decision Making	84.027*	5K79IDM-08	61,525
Iowa Quality Preschool Standards	84.323	G-6PI3-8	20,685
IEP Initiative Grant	84.323	5K77-08IEP	22,050
Reading First	84.357		33,425
Title III English Language/ELL	84.365		207,243
Enhancing Education Through Technology	84.318		582,180
Evaluating State Education Technology Programs	84.318		26,774
DDL/Title 1 Accountability	84.348		7,952
Our Kids Summer Institute	84.215		45,498
Administrator Grant	84.215		90,057
Occupational Therapists Staff Development	84.027*		95
Title II, Part A Federal Teacher Quality Program	84.367		11,779
Received from the University of Iowa:			
Middle School Text Reader Project	84.027*		7,295
Total U. S. Department of Education			9,265,542

(Continued on next page)

## PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule 4  
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2006

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
<b>U. S. Department of Health and Human Services:</b>			
Passed-Through Iowa Department of Human Services:			
Medical Assistance Program -			
Part B	93.778		\$ 222,757
Part C	93.778		50,648
Temporary Assistance for Needy Families (TANF)	93.558		35,481
<b>Total Department of Health and Human Services</b>			<b>308,886</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 9,574,428</b>

\* Total expenditures for CFDA Number 84.027 were \$7,704,106.

\*\* Total expenditures for CFDA Number 84.178 were \$314,166.

**Basis of Presentation:** The Schedule of Expenditures of Federal Awards includes the federal grant activity of Prairie Lakes Area Education Agency 8 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Prairie Lakes Area Education Agency 8  
Fort Dodge, Iowa

We have audited the accompanying financial statements the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8, as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Prairie Lakes Area Education Agency 8's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Prairie Lakes Area Education Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that could be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairie Lakes Area Education Agency 8's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Prairie Lakes Area Education Agency 8, and other parties to whom Prairie Lakes Area Education Agency 8 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
August 31, 2006

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of  
Prairie Lakes Area Education Agency 8  
Fort Dodge, Iowa

**Compliance**

We have audited the compliance of Prairie Lakes Area Education Agency 8, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Prairie Lakes Area Education Agency 8's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Prairie Lakes Area Education Agency 8's management. Our responsibility is to express an opinion on Prairie Lakes Area Education Agency 8's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Prairie Lakes Area Education Agency 8's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Prairie Lakes Area Education Agency 8's compliance with those requirements.

In our opinion, Prairie Lakes Area Education Agency 8 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## **Internal Control Over Compliance**

The management of Prairie Lakes Area Education Agency 8 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Prairie Lakes Area Education Agency 8's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Prairie Lakes Area Education Agency's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. A reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Prairie Lakes Area Education Agency 8 and other parties to whom Prairie Lakes Area Education Agency 8 may report, including federal award agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
August 31, 2006

## **PRAIRIE LAKES AREA EDUCATION AGENCY 8**

### **Schedule of Findings and Questioned Costs Year Ended June 30, 2006**

#### **Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - CFDA Number 84.027 – Special Education – Grants to States
  - CFDA Number 84.173 – IDEA Part B, Section 619
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Lakes Area Education Agency 8 did not qualify as a low-risk auditee.

#### **Part II: Findings Related to the General Purpose Financial Statements:**

##### **Instances of Non-Compliance:**

No matters were reported.

##### **Reportable Conditions:**

II-A-06     Segregation of Duties: One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. We noted that cash receipts listing is not prepared separate from the cash receipt function. In addition, signature stamps are maintained by individuals responsible for check preparation.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response: We will investigate available alternatives and implement as soon as possible.

Conclusion: Response accepted.

## **PRAIRIE LAKES AREA EDUCATION AGENCY 8**

### **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006**

#### **Part III: Findings and Questioned Costs For Federal Awards:**

##### **Instances of Non-Compliance:**

No matters were reported.

##### **Reportable Conditions:**

All programs displayed on the schedule of expenditures of Federal awards.

III-A-06 Segregation of Duties: The Agency did not properly segregate record keeping and reconciling functions for cash receipts, including those related to Federal programs. See audit finding II-A-06.

#### **Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-06 Budget: Disbursements during the year ended June 30, 2006 exceeded the amount budgeted.

Recommendation: The budget should be amended before disbursements exceed the budget.

Response: The budget was exceeded because of confusion on whether or not the capital project should be included in the budget, since the accounting was handled by Wells Fargo Iowa, N.A.

Conclusion: Response accepted.

IV-B-06 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-06 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-06 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.

IV-E-06 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-06 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes, but were not.

IV-G-06 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2006**

**Part IV: Other Findings Related to Required Statutory Reporting (Continued):**

IV-H-06    Certified Annual Report: The Certified Annual Report was filed with the Department of Education timely.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
August 31, 2006

